NEW MARKET TAX CREDITS (Clinton is Eligible)

The Basics: New Markets Tax Credits

Promoting investment in businesses and real estate developments that serve low-income communities.

Legislated in 2000 as a catalyst to encourage the investment of private capital in designated low-income communities, the New Markets Tax Credit (NMTC) program fosters the construction and rehabilitation of real estate and the expansion of operating businesses in order to create jobs, generate economic activity and improve the quality of services in low-income communities and to low-income persons.

NMTC Overview

NMTCs are intended to support business growth, job creation and spur economic development in underserved communities across the country. Typical projects involve the acquisition, rehabilitation or construction of real estate or the expansion of operating businesses in low-income communities. These can include:

- Commercial offices and retail services/products
- Mixed-use (commercial/residential) properties
- Factories and industrial facilities
- Community centers
- Educational facilities
- Entertainment/cultural facilities
- Health-related facilities
- Hotels and hospitality properties
- Businesses that buy, develop, build, rehabilitate or sell residential property
- Small business loan funds

Projects often focus on:

- Creating quality jobs in low-income communities
- Assisting minority, women-owned and low-income community businesses

- Offering flexible lease rates to tenant businesses
- Providing goods and services and housing options in low-income communities
- Improving access to healthy and affordable food options
- Increasing environmental sustainability
- Pioneering developments that will catalyze additional private investments in the community

In order to finance underlying businesses and developments, USBCDC partners with certified Community Development Entities (CDEs), which are organizations that have primary missions of providing investment capital for, and other financial services to, qualified businesses in the low-income communities that the CDE serves. CDEs apply to the Community Development Financial Institutions Fund (CDFI Fund), a division of the U.S. Department of the Treasury, in a competitive application process for NMTC Allocation Authority. This Authority allows successful CDEs to raise investment capital from USBCDC and other private investors in exchange for the rights to claim tax credits over a seven year compliance period (5 percent of the aggregate qualified investment for three years and 6 percent for the remaining four years). Capital raised by the CDEs is then used to provide below-market financing to qualified businesses in low-income communities.
NMTCs can be combined with Historic Tax Credits (HTCs) and Renewable Energy Tax Credits (RETCs). NMTC financing may not be combined with Low-Income Housing Tax Credits (LIHTCs).

NMTC Qualification Criteria

To be eligible for NMTC financing, businesses being financed must, at a minimum, be located in designated low-income communities, defined by U.S. Census data as census tracts with a poverty rate of at least 20 percent or with median family incomes that do not exceed 80 percent of area median income, qualifying such businesses as Qualified Active Low Income Community Businesses (QALICBs).
QALICBs must meet the following criteria and remain qualified throughout the seven year programmatic compliance period:

- At least 50 percent of the QALICB's revenue must be derived from activity performed at the subject location
- At least 40 percent of the QALICB's tangible property must be located within the low-income community
- At least 40 percent of the QALICB's employees' services are performed within a low-income community
- Income from rental of residential real estate may not account for more than 80 percent of revenue for the QALICB

Additionally, specific "targeted populations," which include individuals or an identifiable group of individuals who are low-income persons or otherwise lack adequate access to loans or equity investments, may also be eligible for NMTC financing. For more information on using targeted populations criteria for NMTC eligibility, contact your USBCDC business development representative.
NMTC Higher Distress Criteria
The following information is used to determine if a qualifying census tract is particularly economically distressed or otherwise underserved and is a designated area of "higher distress." During the application process for NMTC Allocation Authority, CDEs may elect to focus future NMTC activity in all or some of these designated areas of higher distress. It is important to note that the indicia of higher distress have changed with allocation rounds. For more information on determining if a business is located in an area of higher distress, contact your USBCDC business development representative.
In the latest round of NMTC awards, the CDFI Fund pinpointed the following three indicia of higher distress that could satisfy the determination on their own:

- Severe distress: Poverty rate greater than 30 percent; median family income not exceeding 60 percent of statewide median; or unemployment rates at least 1.5 times the national average
- Targeted populations as permitted by the Internal Revenue Service and related CDFI Fund guidance to the extent that businesses are 60 percent owned by low-income persons, at least 60 percent of employees are low-income persons, or at least 60 percent of customers are low-income persons
- Qualified non-metropolitan counties

Additional indicia require at least two of the following indicia of higher distress to satisfy the determination:

- Poverty rate greater than 25 percent; median family income not exceeding 70 percent; or unemployment rates at least 1.25 times the national average
- Federally designated Empowerment Zone, Enterprise Community or Renewal Community
- SBA designated HUB Zone, when NMTC financing will support businesses that obtain HUB Zone certification by the SBA
- Brownfield sites as defined under 42 U.S.C. 9601 (39)
- Area encompassed by a HOPE VI redevelopment plan

- Native American or Alaskan Native areas, Hawaiian Homelands, or redevelopment areas by the appropriate Tribal or other authority
- Areas designated as distressed by the Appalachian Regional Commission of Delta Regional Authority
- Colonias areas as designated by the U.S. Department of Housing and Urban Development
- Federally designated medically underserved area, when NMTC financing activities will result in the support of health-related services
- State Enterprise Zone, or other similar state/local programs targeted towards economically distressed communities
- Counties for which the Federal Emergency Management Agency has issued a "major disaster declaration" and made a determination that such county is eligible for both "individual and public assistance" provided that initial investment be made within 24 months of the disaster declaration
- Businesses certified by the Department of Commerce as eligible for assistance under the Trade Adjustment Assistance for Firms program
- Businesses located in food deserts under the Healthy Food Financing Initiative definition (USDA-ERS) to the extent NMTC financing will increase access to healthy food

The following businesses are prohibited under the NMTC program:

- Massage parlor
- Hot tub facility
- Suntan facility
- Country club
- Racetrack or other facility used for gambling
- Store whose principal purpose is the sale of alcoholic beverages for consumption off premises
- Development or holding of intangibles for sale
- Private or commercial golf course
- Certain farming businesses